United States Senate

HEALTH, EDUCATION, LABOR AND PENSIONS COMMITTEE

Tom Harkin, Chairman

Saving the American Dream: The Past, Present, and Uncertain Future of America's Middle Class

September 1, 2011

All we have ever wanted is security and a little comfort: to know that our bills are paid, our needs are met, that we can have a real getaway every now and then, that our children can pursue higher education without the burden of student loan debt, and that someday we can retire and enjoy our final years together in the way we choose. When I think back over our adult lives, it strikes me that we did everything we were always told to do in order to have the American dream….We did everything that all the experts said we should do, and yet still we're struggling. When you work as hard as we have and still sometimes scrape for the necessities, it really gets you down.

—Amanda Greubel, DeWitt, Iowa, social worker
Testimony to the Senate HELP Committee, June 23, 2011

A strong middle class is the cornerstone of a strong America. Most of us don't expect to be rich or famous, but we do expect a living wage and good American benefits for a hard day's work. We expect a decent standard of living—a house, a car, a vacation now and then—and a dignified retirement, plus confidence in even better lives for our children. The middle class lifestyle is at the heart of the American Dream. But over the last several decades, this strong middle class—and the American Dream—has been slipping away.

In the decades after World War II, the economy grew as our middle class flourished. In those years, rising worker productivity was rewarded with commensurately rising earnings. Access to high quality K-12 and higher education expanded. Retirement security was bolstered by a partnership of individual savings, employer-sponsored defined-benefit pension plans, and Social Security. Vibrant unions provided workers with the ability to negotiate for better pay, stronger workplace safety standards, as well as benefits including paid sick leave and a basic pension.

All of these factors combined to make our middle class the driving force of the US economy by giving working families the ability to live a middle class life without taking on huge debts. This in turn created robust consumer demand that drove businesses to expand here in America.

But, since the l970s, this social contract has weakened. Earnings have not budged in real terms despite our workforce becoming more productive than ever. Union membership has plummeted, and defined-benefit pensions are disappearing. The lion's share of our manufacturing base has been shipped overseas while large corporations have put shareholders' returns and executives' salaries ahead of their workers' basic economic security. Income and wealth inequality have soared to levels not seen since the eve of the Great Depression.

Americans should be working their way into the middle class, not falling out of it. Over the past few months, I have chaired a series of hearings in the Senate's Health, Education, Labor and Pensions Committee to identify the policy choices in recent decades that have pushed the middle class to the brink of extinction, and also to identify new policy choices that would help rebuild the middle class.

One important truth has emerged clearly from these discussions: There can be no sustainable economic recovery or solution to our budget challenges without the recovery of our middle class. Without good-paying jobs that enable ordinary Americans to purchase everyday essentials including food, housing, clothes, and energy without running up their credit cards, our economy will struggle. We will fall farther behind countries that are making smarter policy choices aimed at building their own middle classes.

We know that middle class families are willing to work hard, learn more, and make wise choices with their money. But they can't do it alone. And it is discouraging for them to work harder and harder and fall farther and farther behind, even as the wealthy and powerful rig the system and carve out special privileges and tax breaks.

As this report illustrates, the rules of the game over the last 40 years have been rewritten in such a way that those at the top have benefited lavishly from economic growth while those at the bottom and in the middle have increasingly struggled to make ends meet. We need to consider how wiser policy choices – with regard to wages, taxes, corporate governance, education, labor, housing, and safety net programs – can help rebuild the middle class and restore the American Dream.

Tom Harkin

Senator Tom Harkin
Chairman
Senate Health, Education, Labor, and Pensions Committee

What Has Happened to the Middle Class in America?

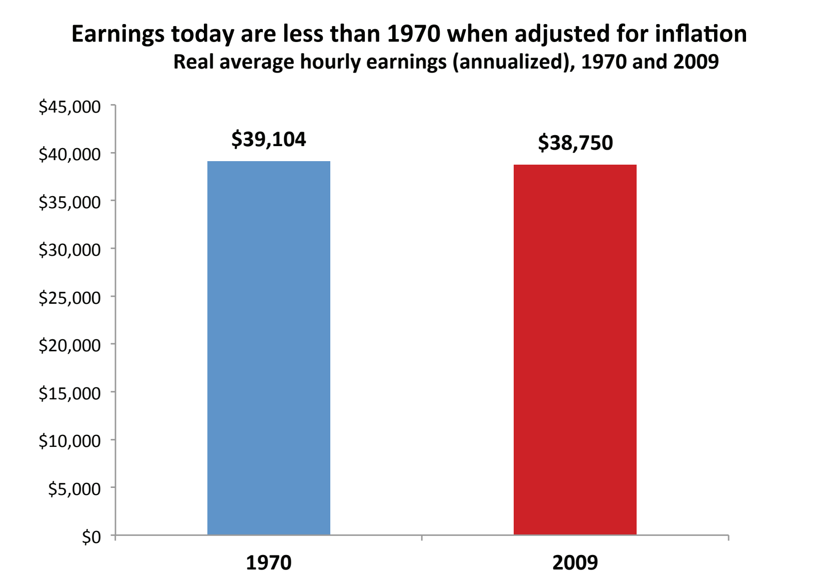
The American middle class is being squeezed to the breaking point, a trend that started decades ago and accelerated during the recent recession. This was not the inevitable result of forces beyond our collective control. Instead, over time, a series of deliberate policy choices, including the failure to consistently raise the minimum wage, the erosion of laws protecting workers' right to form a union, the decline of defined benefit pension plans, and changes in the tax code that have benefitted the very rich and large corporations, have left our middle class behind.

At the same time, the very nature of our economy has transformed. The costs of a college education, the gateway into the middle class, have skyrocketed. Jobs in our economy today are increasingly service sector jobs, as our manufacturing base has been shipped overseas. More and more, the finance sector is driving changes to corporate practices, putting shareholder and executive gains above those of the average worker. While this is good news for Wall Street bankers, it has shrunk the pool of well-paying jobs in the "real" economy.

As a result, the American Dream has slipped out of reach for the average American family. Most families live paycheck to paycheck, unable to save for the future. Earnings have stagnated and costs have risen, especially for the "big-ticket" items that in many ways define the middle class: health care, housing, and college tuition. The future looks no brighter, as the jobs of today's economy are increasingly low-wage jobs that do not support a middle class lifestyle.

Stagnant Earnings

In the simplest terms, the middle class squeeze can be seen through the stagnant value of workers' paychecks. While the numbers on paystubs have gotten bigger over time, earnings growth has slowed, and in real terms earnings have not budged over the past several decades. Adjusted for inflation, average hourly earnings in 1970 were $18.80 or $39,104 annually. However, by 2009, inflation adjusted average hourly earnings had actually declined by $.17 to $18.63 or $38,750 annually.[i]



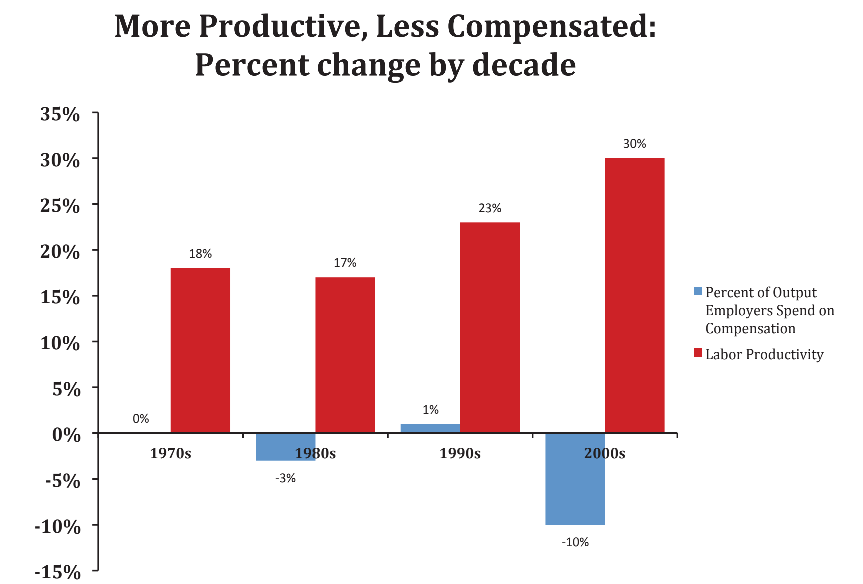
Source: US Bureau of Labor Statistics, Current Employment Statistics survey, average hourly earnings for production and nonsupervisory workers in the private sector; multipled by a full-time full-year schedule (40 hours per week, 52 weeks per year); adjusted for inflation to 2009 dollars using the BLS Inflation Calculator available at http://www.bls.gov/data/inflation_calculator.htm.

Meanwhile, since the late 1970s, median CEO pay at the largest corporations has increased over 400%.[ii] According to a *USA Today* analysis, the average CEO today takes home $9 million annually.[iii] To put that into perspective, it would take the average American worker *227 years* to earn what an average CEO makes in just one.

American workers' stagnant paychecks are not because they aren't working as hard, or they are producing less, or their employers can't afford to pay them more. According to testimony from former Secretary of Labor Robert Reich to the HELP Committee, the typical American family is working more than 500 hours longer per year than they were in 1979. [iv] In addition to working longer, American workers' productivity, as measured by the Bureau of Labor Statistics, has continued to rise.[v] Meanwhile, profit margins of Standard and Poor's 500 companies are at their highest levels since the late 1960s.[vi]

Nevertheless, despite working longer and producing more, the average American did not receive higher compensation. As shown in the figure below, during the last four decades, workers did not gain from the economic growth they produced. Instead, in recent decades, the amount that employers spend on worker compensation has been flat or negative and is trending downward.

According to a recent report of a J.P. Morgan analyst, three-quarters of the improvement in profit margins from 2000-2007 is due to reductions in wages and benefits.[vii] So this increase in worker productivity has been met with benefit cuts and stagnant wages, while executives shift revenue from workers' paychecks to corporate bottom lines and their own pockets.



Source: US Bureau of Labor Statistics, published and unpublished data from the productivity and cost series data. Data covers all persons in the nonfarm business sector. Compensation is wages and salaries, supplements (e.g. paid leave and bonuses), and employer contributions for employee benefits (e.g. health insurance and Social Security).

This decoupling of productivity from wages has been a substantial shift from previous generations. As Jared Bernstein, the former Chief Economist to Vice President Biden observed to the HELP Committee, "Over the three decades from 1947-79, real median family income grew almost in lock step with productivity growth. But over the next thirty years, middle-income growth was about one-eighth that of productivity."[viii]

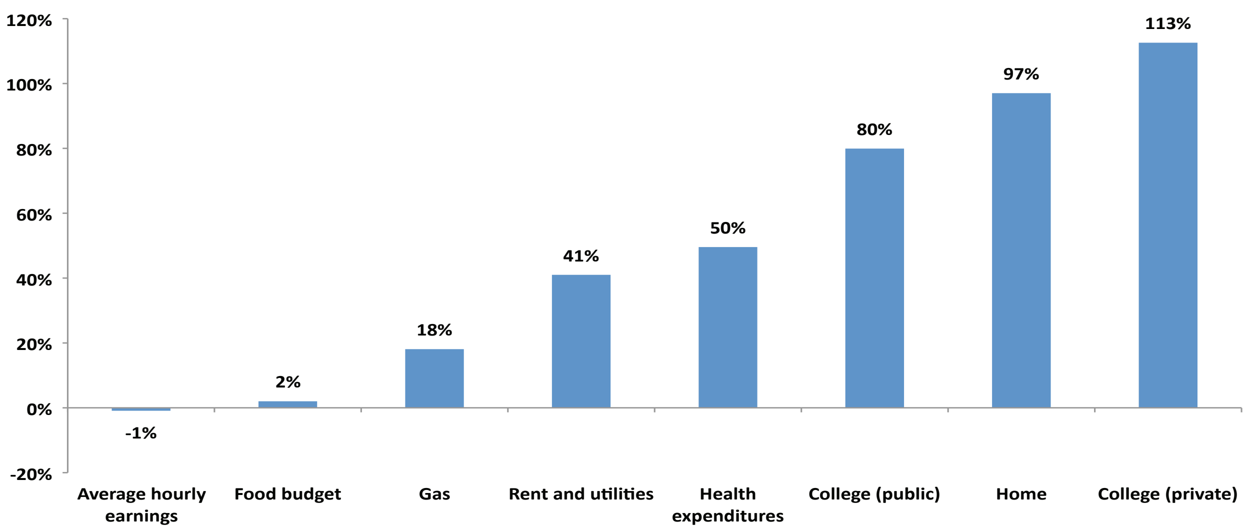
The Rising Cost of Living

Stagnant wages alone are challenging enough for families, but when coupled with the rising cost of living, it is clear why American family budgets are stretched to the breaking point. With jobs paying essentially the same amount in real terms as they did in 1970, families have coped with rising prices by becoming two-income households, working second jobs, and relying on credit.

Among “big-ticket” items that are essential to a middle class life—a home, health care, and college tuition—costs have risen far faster than average earnings and even faster than overall inflation. A family in 1970 might have found it possible to own a home, pay for health care, save for retirement, and put a child through college, but today families are struggling to achieve those goals.

While wages have stagnated, costs have shot up

Change in real earnings and costs (2009 dollars), 1970 to 2009



Notes and sources: All 1970 prices inflated using Bureau of Labor Statistics CPI Inflation Calculator available at http://www.bls.gov/data/inflation_calculator.htm, unless otherwise noted. **Earnings:** Bureau of Labor Statistics, Current Employment Statistics survey, average hourly earnings of production and nonsupervisory workers in the private sector; hourly data is adjusted for an annual, full-time full-year schedule. **Food budget**: US Department of Agriculture, “Official USDA Food Plans: Cost of Food at Home Estimated for Food Plans at Four Cost Levels, US Average,” June 1970 and June 2009; 1970 data is low-cost plan, cost for 1 month for a family of four with two schoolage children; 2009 data is low-cost plan, cost for 1 moth for a family of four with two schoolage children. **Gas:** US Department of Energy, Energy Information Administration, “Table 5.24 Retail Motor Gasoline and On-Highway Diesel Fuel Prices, 1949-2009”; per-gallon cost of leaded regular in 1970 and unleaded regular in 2009. **Rent and utilities:** US Census Bureau, Census of Housing, Historical Census of Housing Tables, Gross Rents, median gross rents; 2009 data provided by Census Bureau from 2009 American Community Survey 1-year estimates; gross rent is monthly amount of rent plus the estimated average monthly cost of utilities and fuels. **Health expenditures**: Bureau of Labor Statistics, Consumer Expenditure Survey, 1972-73 and 2009, average health care expenditure for all households; 1972-73 data provided by Bureau of Labor Statistics. 1972-73 figure deflated to 1970 levels based on change in per capita amounts of national health expenditures from 1970 to the average of 1972 and 1973; 1970, 1972, and 1973 per capita data available from US Department of Health and Human Services, Centers for Medicare and Medicaid Services, National Health Expenditure Data, "NHE Summary including share of GDP, CY 1960-2009." **College (public and private)**: US Department of Education, National Center for Education Statistics, "Table 345. Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting institutions, by type and control of institution: 1964-65 through 2009-10"; data is for cost of tuition, room, and board in the 1970-71 and 2009-10 school years. **Home:** US Census Bureau, Census of Housing, Historical Census of Housing Tables, Home Values, median home values; data for 2009 provided by Census Bureau from 2009 American Community Survey 1-year estimates.

Table 1

Real Earnings and Costs in 1970 and 2009[x]

Annual data	1970	2009
Average hourly earnings	$39,104	$38,750
Food budget	$8,924	$9,104
Gas (500 gallons)	$995	$1,175
Rent and utilities	$7,166	$10,104
Health expenditures	$2,090	$3,126
1 Year of College (public)	$7,116	$12,804
Home (20% down payment)	$18,800	$37,040
1 Year of College (private)	$15,139	$32,184

Amanda Greubel, a social worker in her local school district in Iowa, summed up how this reality has impacted her family, and those that she works with on a daily basis in her testimony to the HELP Committee:

In addition to job loss there are many factors that are further squeezing families. Health care costs are high for those who have insurance coverage and impossible for those who don't. Gas prices eat up a large percentage of income for people who have to drive several miles to work in rural areas like mine. Grocery prices mean that families choose between eating what's healthy and eating what's affordable. And to add insult to injury, families who are scraping by every day see no real relief in sight.[ix]

But those select costs do not tell the whole story; there are many more items in a family's budget. For a single worker with no dependents to have the most basic economic security, she needs to earn at least $30,000 per year, if she has employment-based benefits like health insurance and a retirement plan.[xi] A family of four with two school-age children needs to earn almost $68,000 per year for basic economic security. A single parent with a young child needs to earn at least $46,000 per year. Basic economic security is just that: *basic*—money for housing, food, transportation, health care, and other limited necessities, plus a small amount to save for emergencies and retirement.

Table 2

Expenses to Achieve Basic Economic Security, 2010

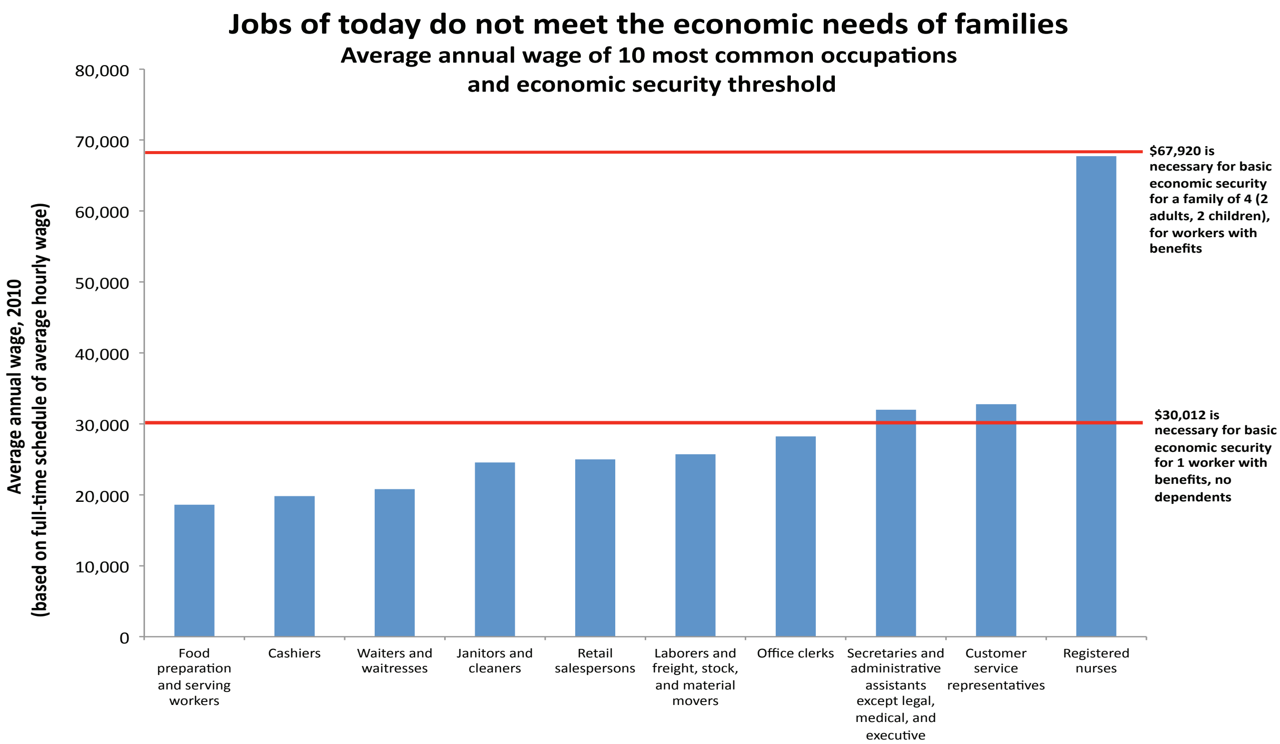
Monthly Expenses	1 Worker	2 Workers, 2 Children (1 Pre-schooler, 1 school-age child)
Housing	$688	$821
Utilities	149	178
Food	244	707
Transportation	495	1,019
Child Care	0	1,080
Personal and Household Items	291	460
Health Care	136	443
Emergency Savings	75	170
Retirement Savings	73	56
Taxes	384	1,060
Tax Credits	-34	-334
Monthly Total (per Worker)	**$2,501**	**$2,830**
Annual Total	**$30,012**	**$67,920**

Source: Wider Opportunities for Women, "The Basic Economic Security Tables for the United States," 2010, data provided for workers with employment-based benefits.

Today's Jobs Do Not Meet Families' Needs

Unfortunately, the prospects for middle class families look no better in the future. As we continue to dig out from the worst financial crisis and recession since the Great Depression, Americans are facing a job market that is failing to provide them with the opportunity to join the middle class. Job growth in recent years has been concentrated in sectors that pay less than in sectors with high job loss, especially considering the substantial job losses in manufacturing and construction from the Great Recession. The lack of well-paying jobs has had a devastating impact on millions of families and stymied their ability to recover from the recession.

In 2010, half of all jobs paid below $33,840.[xii] This means that nearly half of all jobs cannot support a single person, much less support a family. Indeed, 9 of the 10 types of jobs in which most people are employed today pay less than $35,000 per year on average.[xiii] If these trends continue, the jobs of the future won't pay enough for a middle class life, either: 6 of the 10 jobs with the highest projected employment growth over this decade pay less than $30,000 and 7 of the 10 pay less than $35,000.[xiv]



Sources: Bureau of Labor Statistics, Occupational Employment Statistics (OES) Highlights: An Overview of U.S. Occupational Employment and Wages in 2010; and Wider Opportunities for Women, "The Basic Economic Security Tables for the United States," 2010.

Things Could Have Been Different

Chalking up the decline of the middle class to economic factors beyond our control is easy, but untrue. In reality, policymakers have failed to protect and grow America's middle class, both by instituting policies that benefit the wealthiest and the largest corporations, and by allowing laws designed to protect workers and allow proper oversight of corporations to erode. As a result, the programs and policies that helped create the middle class have been thrown by the wayside, replaced with game-changing rules that benefit the wealthy and powerful:

- The real value of the minimum wage has declined for the last four decades. If the minimum wage had kept up with inflation since the late 1960s, it would be $10.38 today. This deterioration of the wage floor drags all workers' paychecks down and increases economic inequality.

- Workers have seen important rights – like the right to overtime pay under the Fair Labor Standards Act and the right to a safe and healthy workplace – eroded by regulations, court decisions, and years of lax enforcement. In addition, employers have increasingly worked to circumvent these laws, such as misclassifying employees as "independent contractors."

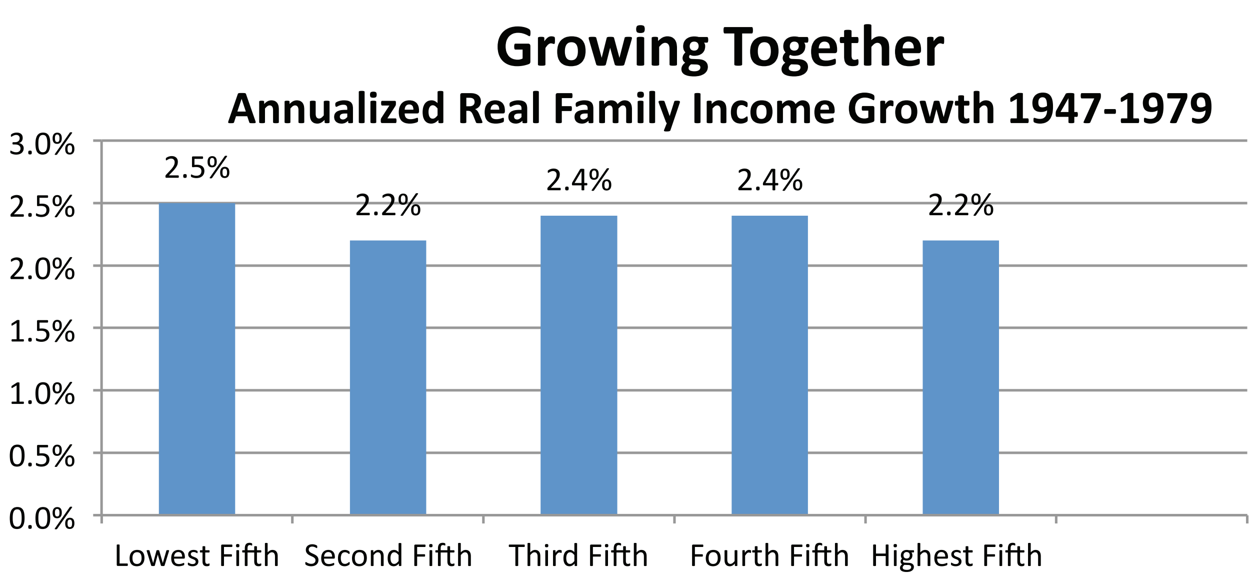
- The right to organize and form a union has been under concerted political attack for decades, causing union density to plummet and lowering wage and benefit standards for the entire nation.

- The law has effectively encouraged employers to abandon traditional defined benefit pensions in favor of defined contribution savings plans that don't provide real retirement security.

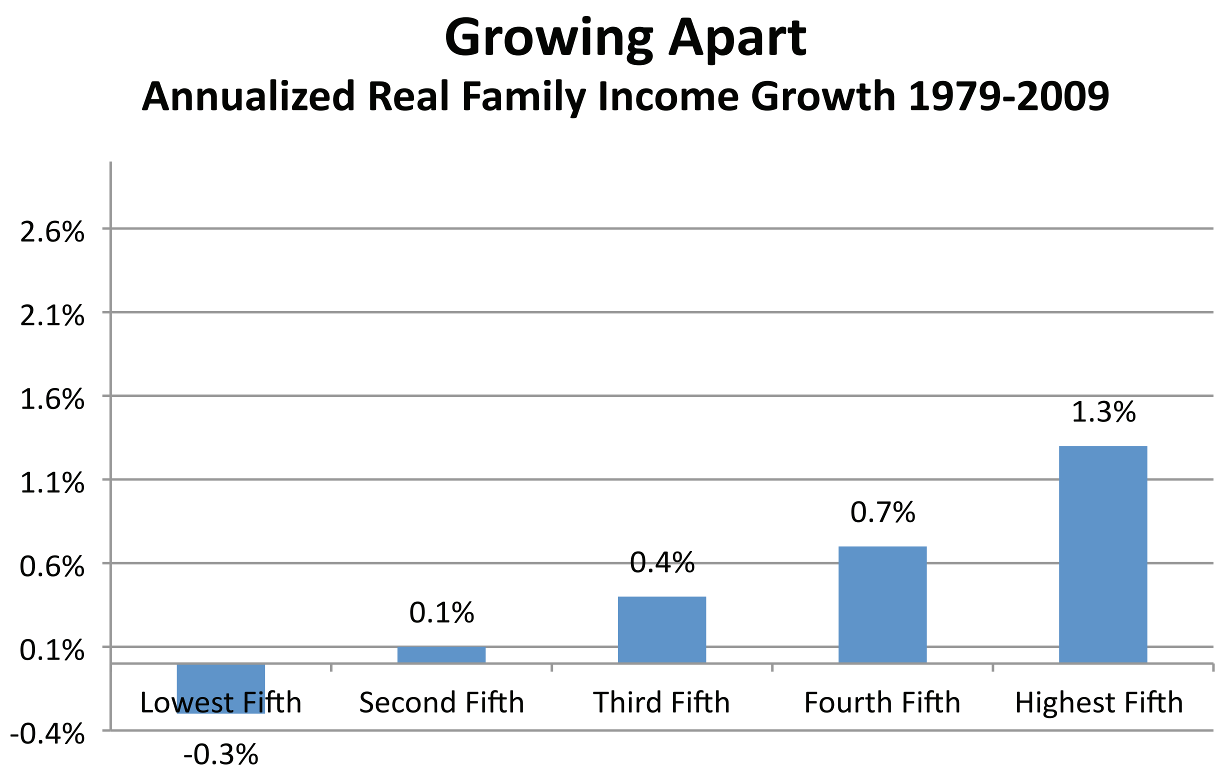
- The repeal of Glass-Steagall and the failure of regulators to enforce existing laws allowed the financial sector to take on too much risk, triggering the worst financial crisis and recession since the Great Depression, leaving millions of middle class Americans out of work.

- The 2001 and 2003 tax reforms provided substantial benefits for very wealthy individuals and corporations, exacerbating inequality. In addition, the law lowered federal revenues, increasing the federal deficit and leading Congress to decrease support for programs vital to the middle class.

The result of these changes is dramatically increasing inequality. Whereas in the decades after World War II all income groups saw significant gains, for the last three decades only those at the very top have seen comparable gains.



Source: Economic Policy Institute analysis of U.S. Census Bureau data. Available at: http://www.stateofworkingamerica.org/files/images/orig/figure-12—-family-income-growth_3.png



Source: Economic Policy Institute analysis of U.S. Census Bureau data. Available at: http://www.stateofworkingamerica.org/files/images/orig/figure-12---family-income-growth_3.png

Where do we go from here?

The decline of the American middle class is a national crisis, and it should be treated as such. But, unfortunately, inside the Washington bubble, this crisis is receiving scant attention. Many of our elected leaders have persuaded themselves that the most important issue facing our nation is the budget deficit – but these leaders fail to acknowledge how deeply these budget woes are tied to the profound shifts in our economy that have jeopardized the American middle class.

There can be no economic recovery and no return to fiscal balance without the recovery of the middle class. That means – first and foremost – putting people back to work. The best way to help the middle class (and reduce budget deficits at the same time) is to help 25 million unemployed and underemployed Americans get good jobs and become taxpayers again by investing in education, innovation, and infrastructure. A national program to rebuild our nation's infrastructure – including our schools, highways, bridges, and water infrastructure – would put millions of Americans back to work, especially in the hard-hit construction sector. These kinds of investments have the added effect of boosting the productivity of the private sector so that we are no longer "driving on Eisenhower's roads and sending our kids to Roosevelt's schools."[xv]

But beyond solving the immediate jobs crisis, restoring vitality to both our middle class and our national economy requires reversing the decades-long economic trends and policy choices that have allowed working families to fall further and further behind, even when our economy grows. That means aggressively pursuing policies that will restore a level playing field for the middle class.

While on the job, workers need to have the same rights as corporate CEOs to negotiate their salaries and benefits from a position of strength, not weakness. And, hard-working middle class families also need to know that they will be able to enjoy their golden years after a lifetime of work. To that end, federal laws governing the pension system need to be updated so that they can once again provide the basis for a secure retirement.

To lay the groundwork for future job growth, it is also essential to restore balance to the tax code by removing the tax benefits received by the very wealthy and large corporations from the 2001 and 2003 tax bills. Prudent use of those revenues will provide additional resources for the programs like student financial assistance and job training, both of which are so essential to building the middle class. Importantly, added revenues will also ensure that we are able to take a balanced approach to deficit reduction, which will help to put our nation on a path to long-term growth.

Promoting our long-term growth also requires removing the provisions in the tax code that encourage American companies shifting jobs overseas. Currently, if a company makes a profit domestically they pay a tax on that profit, but if it is made overseas the company is not required to pay a tax until that profit is returned to the United States. Along with creative accounting to gain excessive tax credits and lower rates, this provision creates a direct incentive for companies to shift their profit-making activities overseas. Tax Policy that encourages American companies to expand at home is long overdue.

These are not pipe dreams. These were policies that actually once existed in America – in the three decades following the Second World War – and they produced a strong middle class, which resulted in the greatest prosperity the world has ever known. But these same policies were systematically eroded over the past 30 years by an assault led by the richest and most powerful forces in this country, based on a flawed belief that concentrating wealth at the top of the pyramid would somehow lead to prosperity for all. While those policies might be working well for corporate CEOs and the richest among us, they are not working for the average American family, and they are certainly not working for America either. The sorry state of the American economy in 2011 tells us we must change course. America simply won't prosper again until the American middle class is prospering.

We've succeeded in building a strong and vibrant middle class in the past and we can do it again. As former Labor Secretary Robert Reich stated when he testified at the Committee's first hearing on this topic in May, "People often ask me 'what country should the U.S. emulate in terms of building and rebuilding the middle class and working class of this country?' and I said there's no other country. Just go back to the three decades after the Second World War. We knew how to do it."[xvi]

We can make the American Dream a reality again. We can restore for our children the same principles that our parents held – that if you put in a hard day's work, you can expect good American wages, benefits, and a better life. We just have to have the imagination, vision, and commitment to make it happen.

Endnotes

i US Bureau of Labor Statistics, Current Employment Statistics survey, average hourly earnings for production and nonsupervisory workers in the private sector multiplied by a full-time, full-year schedule (40 hours per week, 52 weeks per year); adjusted for inflation to 2009 dollars using the BLS CPI Inflation Calculator available at http://www.bls.gov/data/inflation_calculator.htm

ii Carola Frydman and Raven Saks, "Executive Compensation: A New View from a Long-Term Perspective, 1936-2005," National Bureau of Economic Research, Working Paper, 14145, June 2008, available at http://www.nber.org/papers/w14145.pdf

iii Matt Krantz and Barbara Hansen, "CEO pay soars while workers' pay stalls," USA Today, April 4, 2011, available at http://www.usatoday.com/money/companies/management/story/CEO-pay-2010/45634384/1.

iv Robert Reich, testimony before the Senate Committee on Health, Education, Labor, and Pensions, May 12, 2011, available at http://help.senate.gov/imo/media/doc/Reich.pdf

v Bureau of Labor Statistics, Labor Productivity and Costs "Productivity change in the nonfarm business sector, 1947-2010," available at http://bls.gov/lpc/prodybar.htm

vi Michael Cembalest, "Topics: Portfolios, US Corporate Profits and the Twilight of the Gods (in the US, Europe, China and the IEA", Eye on the Market, July 11, 2011, available at: http://www.investorvillage.com/uploads/44821/files/07-11-11_-_EOTM_-_Twilight_of_the_Gods__PWM_.pdf.

vii Ibid.

viii Jared Bernstein testimony before the Senate Committee on Health, Education, Labor and Pensions, June 23, 2011, available at http://help.senate.gov/imo/media/doc/Bernstein3.pdf

ix Amanda Greubel testimony before the Senate Committee on Health, Education, Labor and Pensions, June 23, 2011 available at http://help.senate.gov/imo/media/doc/Greubel.pdf

x Notes and sources: All 1970 prices inflated using Bureau of Labor Statistics CPI Inflation Calculator available at http://www.bls.gov/data/inflation_calculator.htm, unless otherwise noted. Earnings: Bureau of Labor Statistics, Current Employment Statistics survey, average hourly earnings of production and nonsupervisory workers in the private sector; hourly data is adjusted for an annual, full-time, full-year schedule. Food budget: US Department of Agriculture, "Official USDA Food Plans: Cost of Food at Home Estimated for Food Plans at Four Cost Levels, US Average," June 1970 and June 2009; 1970 data is low-cost plan, cost for 1 month for a family of four with two school children; 2009 data is low-cost plan, cost for 1 month for a family of 4 with two school children. Gas: US Department of Energy, Energy Information Administration, "Table 5.24 Retail Motor Gasoline and On-Highway Diesel Fuel Prices, 1949-2009"; per-gallon cost of leaded regular in 1970 and unleaded regular in 2009. Rent and utilities: US Census Bureau, Census of Housing, Historical Census of Housing Tables, Gross Rents, median gross rents; 2009 data provided by Census Bureau from 2009 American Community Survey 1-year estimates; gross rent is monthly amount of rent plus the estimated average monthly cost of utilities and fuels. Health expenditures: Bureau of Labor Statistics, Consumer Expenditure Survey, 1972-73 and 2009, average health care expenditure for all households; 1972-73 data provided by Bureau of Labor Statistics. 1972-73 figure deflated to 1970 levels based on change in per capita amounts of national health expenditures from 1970 to the average of 1972 and 1973; 1970, 1972, and 1973 per capita data available from US Department of Health and Human Services, Centers for Medicare and Medicaid Services, National Health Expenditure Data, "NHE Summary including share of GDP, CY 1960-2009." College (public and private): US Department of Education, National Center for Education Statistics, "Table 345. Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting institutions, by type and control of institution: 1964-65 through 2009-10," data is for cost of tuition, room, and board in the 1970-71 and 2009-10 school years. Home: US Census Bureau, Census of Housing, Historical Census of Housing Tables, Home Values, median home values; data for 2009 provided by Census Bureau from 2009 American Community Survey 1-year estimates.

[xi] Wider Opportunities for Women, “The Basic Economic Security Tables for the United States,” 2010. These figures are reported on a national basis. The economic security threshold will be much higher in high-cost areas. See WOW’s state level research, available at http://www.wowonline.org/usbest/. The economic security threshold for a single worker without employment-based benefits is $34,728; for 2 workers and 2 young children it is $73,296.

[xii] Bureau of Labor Statistics, “Occupational Employment Statistics (OES) Highlights: An Overview of U.S. Occupational Employment and Wages in 2010,” June 2011, available at: http://www.bls.gov/oes/highlight_2010.pdf

[xiii] Ibid.

[xiv] Bureau of Labor Statistics, “Table 1.4 Occupations with the largest job growth, 2008 and projected 2018,” available at http://www.bls.gov/emp/ep_table_104.pdf. Average wage data available from Bureau of Labor Statistics “National Occupational Employment and Wage Estimates” May 2010 available at: http://www.bls.gov/oes/.

[xv] Blaine D. Leonard, President American Society of Civil Engineers, “Response to the President’s State of the Union,” January 28, 2010. Available at: http://www.prnewswire.com/news-releases/response-to-the-presidents-state-of-the-union-82944387.html

[xvi] Robert Reich testimony before the Senate Committee on Health, Education, Labor, and Pensions, May 12, 2011, available at http://help.senate.gov/imo/media/doc/Reich.pdf.